



National Retail Federation Testimony

Hearing on

**“Health Care Reform in a Struggling Economy:
What is on the Horizon for Small Business?”**

Committee on Small Business

United States House of Representatives

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Dave Ratner
Owner
Dave's Pet & Soda City
Agawam, Massachusetts

Liberty Place
325 7th Street NW, Suite 1100
Washington, DC 20004
800.NRF.HOW2 (800.673.4692)
202.783.7971 fax 202.737.2849
www.nrf.com

Madam Chairwoman and honored members of the Small Business Committee, my name is Dave Ratner and I am the owner of Dave's Pet & Soda City, a four store business in the greater Springfield region of Massachusetts. I am pleased to appear today on behalf of the National Retail Federation (NRF). I serve on the Boards of the Retail Advertising and Marketing Association of the NRF and the Retail Association of Massachusetts.

On behalf of my fellow retailers, I commend you for holding this hearing to focus attention on the difficulty the small business community has in providing health insurance coverage generally and particularly in this down economy. Like you, I am hopeful that health care reform will provide real relief from rising health care costs. We need all the help we can get as soon as we can get it. Yesterday might have been better.

The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail establishments, more than 24 million employees - about one in five American workers - and 2008 sales of \$4.6 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations.

The retail industry is one of the biggest supporters of the employer-based health insurance system – despite not having an easy workforce population to cover. We have a fairly young workforce (though with a significant senior cohort) with a high turnover rate. We employ half of all teenagers in the workforce and a third of all workers under 24 years old. More than a third (35 percent) of this workforce is part-time. Two-thirds of our part-time employees are women. Often retail industry employees are second wage earners, mainstays of family economies. Some qualified retail workers opt-out of the coverage we offer because they already have alternative coverage through a family member or another job.

As a labor-intensive industry, retailers are strong advocates of quality and affordable health coverage in order to help keep our employees healthy and productive. As an industry that frequently endures wafer-thin profit margins, we are also well acquainted with the need to manage the collective cost of labor in as cost-effective a manner as is possible. Maintaining balance between these two imperatives is not always easy – it's borderline impossible, even in the best of times. These are far away from being the best of times.

We hope to work with you and other members of the U.S. House and Senate to bring about meaningful relief from rising health care costs – the key, in our view, to reaching universal access to health coverage. NRF has proposed a comprehensive solution to increasing access to more affordable health coverage in our “Vision for Health Care Reform.” A copy of the complete NRF proposal is attached at the end of this testimony.

NRF Vision for Health Care Reform

The National Retail Federation's Vision for Health Care Reform was approved in final form by the NRF Board of Directors in January 2008. We are proud of this document, but are also flexible enough to look beyond its corners for other good ideas. We are aggressive proponents for enacting the right kinds of health care reform as soon as is possible.

Elements of our Vision document were recommended by a special CEO Health Care Taskforce and associated Health Care Taskforce Workgroup formed by the NRF Board in 2006. Both groups contained both small and large retailers, chain restaurants and representatives of member state associations. Individual sub-workgroups (Retail Industry and Health Care; Innovation in Health Care; Innovations in Plan Design; and Ongoing Policy Debates) were formed to study the health care crisis in depth before developing these recommendations for the NRF Board. Our Vision document is the product of that intensive review process. Again, we are eager to assist in your efforts to improve the quality, cost and access to health coverage.

Four Pillars for Reform

The four key elements of the NRF Vision are to: improve health care quality; lower health care costs; increase access to coverage; and reform state health insurance markets. Stated differently, our proposal seeks to increase access to a value-oriented health care and coverage system. We seek to improve quality, lower costs, increase access and address the divergent needs of federally and state-regulated markets.

We believe that until we can create better value in health care and coverage, we will never be able to spend enough collectively to expand quality and affordable health coverage to all Americans – a goal we retailers share. The challenge, clearly, will be getting there. Retailers who don't offer consistent value to their customers don't survive; amazingly the same is not true in the main for our health care system.

Improving Health Care Quality

We spend more than any other nation on health care but get only middling to poor returns on life expectancy, disease states and other health care quality indices. Connecting the myriad disorganized elements of our health care system through health information technology (HIT) will help, as will development of consumer friendly electronic personal health records.

One of the biggest changes will be the development of consumer-friendly comparative cost and quality information. My customers know more about the pet products on my

shelf than they do about the doctor down the street, and that is not right. People should be able to select the best quality care just as they choose between me and my competitors on a daily basis. Competition encourages lower prices and better quality. More and better appropriate competition could do wonders for health care.

Partners HealthCare Inc.

You can see an example of where inappropriate competition and market concentration has increased costs and lowered the quality of care close to my Massachusetts home. The Boston Globe studied the effect of Partners HealthCare Inc. (parent of Massachusetts General Hospital and the Brigham and Women's Hospital) on the Boston healthcare market in November 2008. Those reports concluded that the disproportionate market share enjoyed by Partners had distorted costs and delivered lesser quality care than would have been expected due to the reputation of these institutions. Better information in the hands of Boston area patients might have helped to reduce this problem and helped to create better and more affordable care.

Lower Health Care Costs

We believe that the key to making health coverage more accessible lies in reducing its cost. This should be the central goal in all health care reform efforts.

We have a number of proposals in this area including: better engaging consumers in self-management and value-conscious shopping for care; promoting wellness and better managing chronic conditions; and preserving the federal ERISA law to help more employers sponsor uniform benefits across state boundaries. I note that Chairwoman Velázquez has previously introduced an interesting proposal to help the private market better manage the cost of high dollar claims. NRF looks forward to continuing to work with this Committee on the Chairwoman's proposal.

Increase Access to Coverage

As I have noted previously, reducing the cost of health coverage will help many more businesses and individuals gain access to that coverage. Increasing access will help better spread insurance risk and help reduce overall costs.

We believe that we can reach universal coverage (a goal we retailers share) without mandating that employers provide coverage. We would urge the Congress to consider requiring all individuals to obtain a basic level of health coverage and encourage (but not require) businesses to offer employees access to coverage.

The problem with employer mandates – either to provide coverage or provide specific coverages – is that they directly increase the cost of coverage and hence the cost of

labor. Higher labor costs mean fewer employees to enjoy less coverage: the opposite effect that pro-mandate policymakers seek.

As a rational businessman, I want to employ as many people as I can afford to employ and that my business can support. Employer mandated health insurance will distort that balance and leave everyone – including me – unhappy. I would guess that someone – perhaps the medical community – would gain from an employer mandate, but who will pay the doctor bills if people don't have jobs?

We also continue to support various pooling mechanisms including insurance exchanges, such as the one in place in my home state of Massachusetts. We would urge policymakers to be wary about trying to transplant the bulky and bureaucratic Massachusetts exchange to other states: we had a particular set of circumstances that helped make the Massachusetts Connector possible. We might have done just as well (or better) by implementing an electronic portal-type exchange (like the commercial "Travelocity" website, but for health insurance) at lower cost and better choice.

My own health coverage costs recently decreased purely by reason of the entry of a single new competitor in my local market. Beneficial competition can do much to help.

State Insurance Market Reform

In order to help encourage more affordable access to state-regulated insurance coverage for single-state companies like mine, we urge steps to help reduce the complexity and expense of state markets. Weeding out or applying sunset dates to coverage mandates, encouraging more flexible plan designs (especially for part-time workers) and shoring up access to high risk pools or carriers of last resort for the medically uninsurable will all help. We would also encourage the states to enact less restrictive rating reforms to help encourage lower employees to obtain coverage and thus lower costs for older workers in the process.

Building Consensus for Reform

As proud as we are of our Vision for Health Care Reform, we are under no illusion that Congress or the Obama Administration will turn to us and say "oh, there's the final answer." I would venture that there is no industry in America – and practically no American – without big ideas for health care reform. There are quite a few ideas that have appeared in Congress and during the recent Presidential campaign as well. But, we do hope that our Vision will help add to the growing consensus around reform. I'd be glad to discuss any of the elements of our proposal that interest you in greater depth as would NRF staff¹.

¹ Contact Neil Trautwein, NRF Vice President and Employee Benefits Policy Counsel at trautweinn@nrf.com or 202.626.8170.

Our members want, need and expect to see real relief from rising health care costs enacted and are determined to play a positive role in the reform cause. Success will also depend in part on whether a strong pro-reform coalition can be built among the myriad, diverse and frequently contrary interests outside the political process.

It's relatively easy to build a coalition of the disaffected to oppose reform. We hope to work with you to help build a stronger coalition of the eager and willing supporters of reform. The talking phase has gone on for long enough, at least in our view.

Conclusion

Again, NRF greatly appreciates the opportunity to appear before you today. In sum, we urge you to work to create a value-oriented health care system that promotes lower cost and higher quality care and coverage for employers of all sizes and individuals from all walks of life. We would urge you to carefully consider the downstream implications of specific proposals on the cost and quality of care and coverage and particularly how different proposals interact.

Again, we look forward to working with you to help promote the enactment of positive health care reform.

NRF Vision for Health Care Reform

The retail industry employs one out every five workers in today's economy and is an important source of health coverage for our associates and their dependents. The industry is eager to assist in efforts to improve the quality, cost and access to health coverage. Americans deserve better value for our collective health care dollar. The National Retail Federation supports the following principles to help reform our nation's health care system:

Improve Health Care Quality – we need better value (defined as the quality and cost of care) from our health care system. We spend more than any other country but lag behind other countries in leading health care indicators.

- Promote the implementation of health information technology as quickly as possible to transform health care administration from paper to interoperable electronic records. This will allow health care professionals to better coordinate care and also make timely clinical information available to health care professionals to help reduce medical errors and avoid duplicative or unnecessary procedures.
- Promote the development of an interoperable, electronic Personal Health Record that can be used by licensed health care professionals in any setting and can be used by patients to transfer their medical history as they move from plan to plan.
- Encourage the use of evidence-based medical standards wherever possible.
- Encourage the availability of comparative health cost and quality information (e.g. transparency). Encourage the availability of this information in easy-to-understand consumer guides.
- Encourage a team-based approach to medicine with the patient as an active participant in managing his or her health. (Electronic medical records can help).
- Encourage quality-based payment programs (a.k.a. value-based purchasing) and other payment reforms to encourage the highest quality integrated care.
- Facilitate the reporting of information through financial incentives for providers.

Lower Health Care Costs – the key to making health coverage more accessible is in reducing its cost. The NRF believes effective measures to improve health care service delivery and reduce costs must be a first and central focus of health care reform at any level.

- Support initiatives that serve to engage consumers in managing their health and shopping for high quality and lower cost health care services when needed.
- Promote initiatives to promote wellness within the workforce and better manage and prevent chronic illness conditions.
- Preserve the federal ERISA law to help employers sponsor uniform benefits across state boundaries.
- Permit the medical management of covered benefits (including mental health benefits) to help provide necessary and equitable coverage.
- Enact medical liability reforms to reduce the downstream costs of medical litigation. Reforms should clearly differentiate process failure, human error, negligence and malpractice, including errors caused by obsolete processes and practices.
- Continually work to eliminate waste and inefficiencies in the health care system.
- Establish a “no tolerance” position on fraud and abuse by health care service providers and consumers alike.
- Encourage participation in local and regional reform coalitions that align themselves with broader national initiatives that are consistent with this vision.

Increase Access to Coverage – reducing the cost of health coverage will help many more businesses and individuals gain access. Increasing access will spread insurance risk and help reduce overall costs. In addition, the NRF recommends the following steps:

- Consider requiring individuals to obtain health insurance coverage. Encourage but do not require businesses to offer employees access to coverage.
- Consider voluntary coverage options for part-time workers that emphasize wellness and prevention coverage and help protect against catastrophic health expenses.
- Consider group purchasing or other risk-pooling programs to increase access to coverage for small businesses and individuals. Encourage access to state, regional or national high risk pools or carriers of last resort for the medically uninsurable.
- Consider tax credits for individuals or small businesses to help make coverage more affordable.
- Consider creating personal health savings accounts to accumulate personal savings and voluntary contributions from one or more employers, along with public subsidies or credits and individual funds to help pay for health insurance premiums.
- Add additional flexibility to Health Savings Accounts (HSAs) to make them more attractive to businesses and individuals. Allow Health Reimbursement Arrangements (HRAs) and Flexible Spending Accounts (FSAs) to more effectively coordinate with HSAs. Allow FSA funds to roll over from year to year.

State Insurance Market Reform – in order to encourage more affordable access to state-regulated insurance coverage, the NRF recommends the following principles:

- Help reduce the complexity and cost of coverage by encouraging lawmakers to refrain from passing benefit coverage mandates, employer mandates or mandatory employer contributions.
- Consider setting a sunset date for existing coverage mandates or allowing the coexistence of lower-cost benefit coverage alternatives.
- Consider more flexible plan designs (especially for part-time workers) that emphasize wellness and prevention coverage and help protect against catastrophic health expenses.
- Encourage states to maintain access to high risk pools or carriers of last resort for the medically uninsurable.
- Consider less restrictive rating reforms to encourage younger employees to obtain coverage and thus promote more equitable generational cross-subsidization.

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